A. C. BILL ROSE

PUBLIC RELATIONS MANAGER
WESTERN & INTERNATIONAL DIVISIONS
GETTY OIL COMPANY

(213) 381-7151
P. O. BOX 54050
LOS ANGELES, CALIFORNIA 90054

file

Getty
OIL COMPANY

1967 Annual Report

Getty Oil Company is an integrated oil company with oil and gas production in the Saudi Arabia-Kuwait Neutral Zone, Canada, and California, the Rocky Mountain and the Gulf Coast/Mid-Continent regions of the United States. Total net crude oil and natural gas liquids production throughout the world presently averages approximately 275,000 barrels per day.

The company conducts refining operations at modern installations in Delaware, Italy, the Neutral Zone, and in Japan, where a company in which it owns a 49 percent interest, operates two large refineries. A subsidiary international fleet of supertankers is operated as a valuable complement to its production and refining activities.

Marketing of world-famous Veedol lubricants is carried on through an organization of independent Veedol distributors and subsidiaries in Europe, Asia, South America, Canada and Mexico. Domestic marketing is conducted in the Eastern U.S. by Flying A dealers and distributors.

During 1966, Getty Oil's consolidated net income reached an all-time high of $70,798,000, equal to $4.43 per share on the 15,984,228 shares of common stock then outstanding. Total assets, on a consolidated basis, were $1.67 billion, as of December 31, 1966.

OCTOBER 1, 1967 file

GETTY OIL COMPANY

announces that its operations
have been expanded through a
merger to include the former
TIDEWATER OIL COMPANY
and
MISSION DEVELOPMENT COMPANY
creating a new company with
greater worldwide scope and potential

George F. Getty II
Executive Vice President

J. Paul Getty
President

GETTY OIL COMPANY BOARD OF DIRECTORS:

D. Frederick Barton
Partner Eastman Dillon, Union Securities & Co.

George F. Getty II
Executive Vice President, Getty Oil Co.

J. Paul Getty
President, Getty Oil Co.

C. Lansing Hays, Jr.
Partner, Hecht, Hadfield, Hays & McAlpin

Thomas G. Kelliher
Vice President, Getty Oil Co.

Charles F. Krug
Vice President and Secretary, Getty Oil Co.

Frederick G. Larkin, Jr.
President, Security First National Bank

Ernest B. Miller, Jr.
Group Vice President, Getty Oil Co.

John M. Schiff
Partner, Kuhn, Loeb & Co.

Joseph A. Thomas
Partner, Lehman Brothers

Heinn F. Tomfohrde, Jr.
Group Vice President, Getty Oil Co.

GETTY OIL COMPANY PRINCIPAL OFFICES:

3810 Wilshire Boulevard
Los Angeles, California 90005
Phone: (213) 381-7151

Pennsylvania Building or P.O. Box 108
Wilmington, Delaware 19899
Phone: (302) OL 6-8276

660 Madison Avenue
New York, N.Y. 10021
Phone: (212) TE 2-7800

Mellie Esperson Building or P.O. Box 1404
Houston, Texas 77001
Phone: (713) CA 8-9361

Mina Saud
Saudi Arabia-Kuwait Neutral Zone

Riyadh
Saudi Arabia

GETTY OIL COMPANY OFFICERS AND MANAGEMENT:

J. Paul Getty
President

George F. Getty II
Executive Vice President

Ernest B. Miller, Jr.
Group Vice President

Heinn F. Tomfohrde, Jr.
Group Vice President

Charles F. Krug
Vice President and Secretary

J. Earle Gray
Vice President and General Manager
Western Division

Jack D. Jones
Vice President and General Manager
Eastern Division

Thomas G. Kelliher
Vice President and General Manager
Southern Division

George W. Goad
General Manager, International Division

Charles D. Signorelli,
Controller

Richard A. Ny
Treasurer

Walter O. Siler
Assistant Controller

Edward H. Hermsen
Assistant Secretary

Frank D. Benson
Manager, Accounting

Edmund D. Buckley
Chief Counsel

Moody Covey
Manager, Employee Relations

Ty F. Scoggins,
Manager, Public Relations

Getty Oil Company Annual Report for 1967

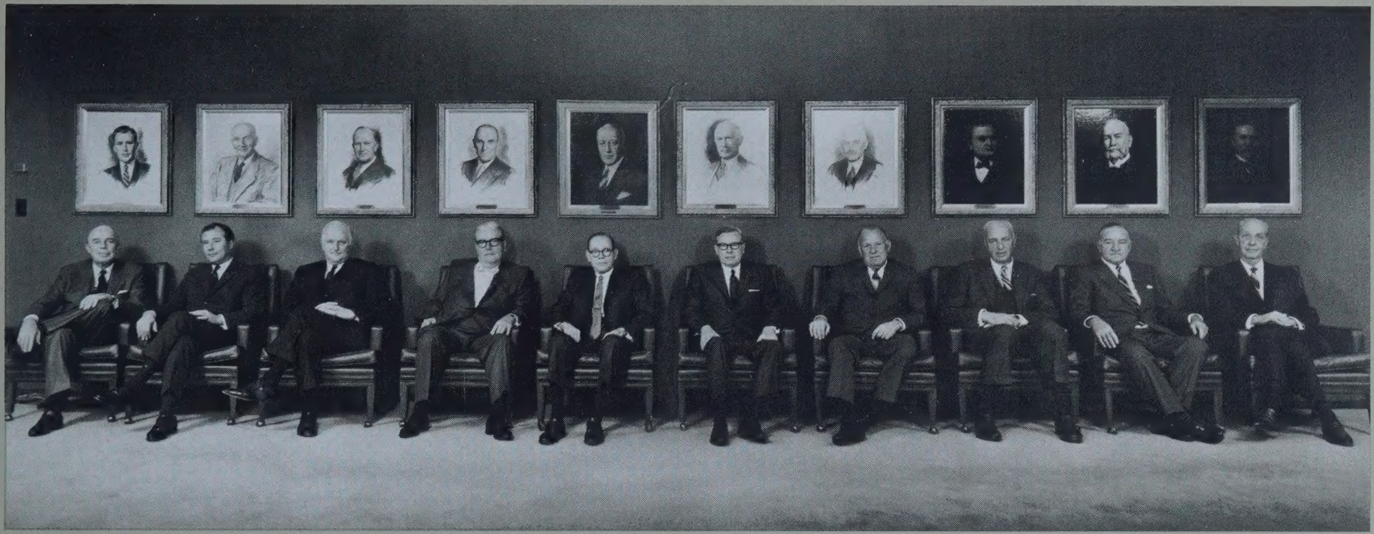
Cover photograph: The Breaux Bridge natural gas fractionation plant in south central Louisiana, jointly owned by Getty Oil and two other companies, began operations in 1967.

Consolidated Highlights

	1967	1966
FINANCIAL		
Sales and other revenues (including consumer taxes)	$1,160,258,000	$1,236,424,000
Income before extraordinary items	114,989,000	92,278,000*
Per average common share	5.56	4.42
Net income	118,166,000	206,918,000*
Per average common share	5.72	10.09
Cash flow from operations	266,708,000	248,143,000
Common stockholders' equity at December 31	1,073,689,000	965,114,000
Per share	53.15	47.78
Working capital at December 31	244,179,000	230,028,000
Total assets at December 31	1,719,570,000	1,675,903,000
Capital expenditures	$ 246,718,000	$ 255,353,000
OPERATING		
Net production of crude oil and natural gas liquids, barrels daily	385,000	370,000
Natural gas sales, thousand cubic feet daily	1,000,000	925,000
Refinery throughput, including processing for others, barrels daily	246,000	308,000
Sales of refined products, barrels daily	257,000	331,000

* After reduction for minority interest in Tidewater not accounted for on a pooling of interests basis.

Continued emphasis on exploratory and development drilling by the consolidated companies helped increase 1967 net crude oil, natural gas liquids and natural gas production over 1966 production.



Left to right: D. Frederick Barton, George F. Getty II, C. Lansing Hays Jr., Thomas G. Kelliher, Charles F. Krug, Frederick G. Larkin Jr., Ernest B. Miller Jr., John M. Schiff, Joseph A. Thomas, Heinn F. Tomfohrde Jr.

Board of Directors

D. Frederick Barton
Partner, Eastman Dillon, Union Securities & Company
George F. Getty II
Executive Vice President, Getty Oil Company
J. Paul Getty *President, Getty Oil Company*
C. Lansing Hays Jr.
Partner, Hecht, Hadfield, Hays & McAlpin
Thomas G. Kelliher *Vice President, Getty Oil Company*
Charles F. Krug
Vice President and Secretary, Getty Oil Company
Frederick G. Larkin Jr. *President, Security First National Bank*
Ernest B. Miller Jr. *Group Vice President, Getty Oil Company*
John M. Schiff *Partner, Kuhn, Loeb & Company*
Joseph A. Thomas *Partner, Lehman Brothers*
Heinn F. Tomfohrde Jr.
Group Vice President, Getty Oil Company

Officers

J. Paul Getty *President*
George F. Getty II *Executive Vice President*
Ernest B. Miller Jr. *Group Vice President*
Heinn F. Tomfohrde Jr. *Group Vice President*
Charles F. Krug *Vice President and Secretary*
J. Earle Gray
Vice President and General Manager, Western Division
Jack D. Jones
Vice President and General Manager, Eastern Division
Thomas G. Kelliher
Vice President and General Manager, Southern Division
Charles D. Signorelli *Controller*
Richard A. Ny *Treasurer*

The No. 1-A E. C. Bryant, a Getty Oil Company discovery in 1967, tested 20 million cubic feet of gas daily from the Smackover formation in East Texas.

To The Stockholders:

J. Paul Getty, President

Review of Consolidated Operations

Financial

All of the financial and operating information presented in the following commentaries and financial statements reflect the September 30, 1967, merger of Mission Development Company and its subsidiary Tidewater Oil Company into Getty Oil Company on a pooling of interests basis. Operations of Mission Corporation and its subsidiary Skelly Oil Company also are fully consolidated. Details relating to operations of Getty Oil Company and its wholly-owned subsidiaries, and details of Skelly Oil operations, in which Getty Oil held a 49.5 percent indirect interest, are in separate sections of this report.

Net Income

Consolidated income from operations for 1967, before extraordinary gains, was $114,989,000 or $5.56 per common share on the average number of common shares outstanding during the year after provision for preferred dividends. This is a 17 percent increase over 1966 earnings for comparable operations, which amounted to $98,038,000 or $4.42 per average common share outstanding.

In addition $3,177,000 or $.16 per share was realized from extraordinary gains during 1967, mostly from the sale of properties. Extraordinary gains in 1966 amounted to $122,037,000 or $5.67 per share, principally from the sale of the former Tidewater Oil Company western marketing and manufacturing assets and related transportation facilities.

The 1966 income from operations and extraordinary gains is before reduction for minority interest in Tidewater not accounted for on a pooling of interests basis.

The per-share earnings for the years ended December 31, 1967, and December 31, 1966, are based on the average number of shares that would have been outstanding after giving consideration to the share exchange based on the ratio established for the merger on September 30, 1967.

Net income includes $19,698,000 for 1967 and $24,352,000 (including extraordinary gains of $7,260,000) for 1966, representing the company's share of Skelly Oil Company and Mission Corporation earnings.

The increase of $16,951,000 in income from operations, before extraordinary gains, resulted primarily from continued improvements in net liquids and natural gas production and sales. Increased earnings from international fleet operations and the beneficial results of the reconfiguration program in the company's eastern United States marketing division also contributed to record 1967 earnings. Continued aggressive application of cost reduction and profit improvement techniques throughout the company helped increase net income.

Sales and Other Revenues

Consolidated sales and other revenues for 1967 were $1,160,258,000, compared with $1,236,424,000 for 1966. Revenues, product sales and refinery runs for 1967 are lower than 1966, primarily because of the sale of the former Tidewater western marketing and manufacturing assets and related transportation facilities in July 1966; nevertheless, income from operations for the current year is higher.

Cash Flow and Capital Expenditures

Cash flow from consolidated operations rose 7.5 percent to a record $266,708,000 in 1967 compared with $248,143,000 in 1966. As indicated in the Source and Disposition of Funds Statement, the funds were applied principally to capital additions.

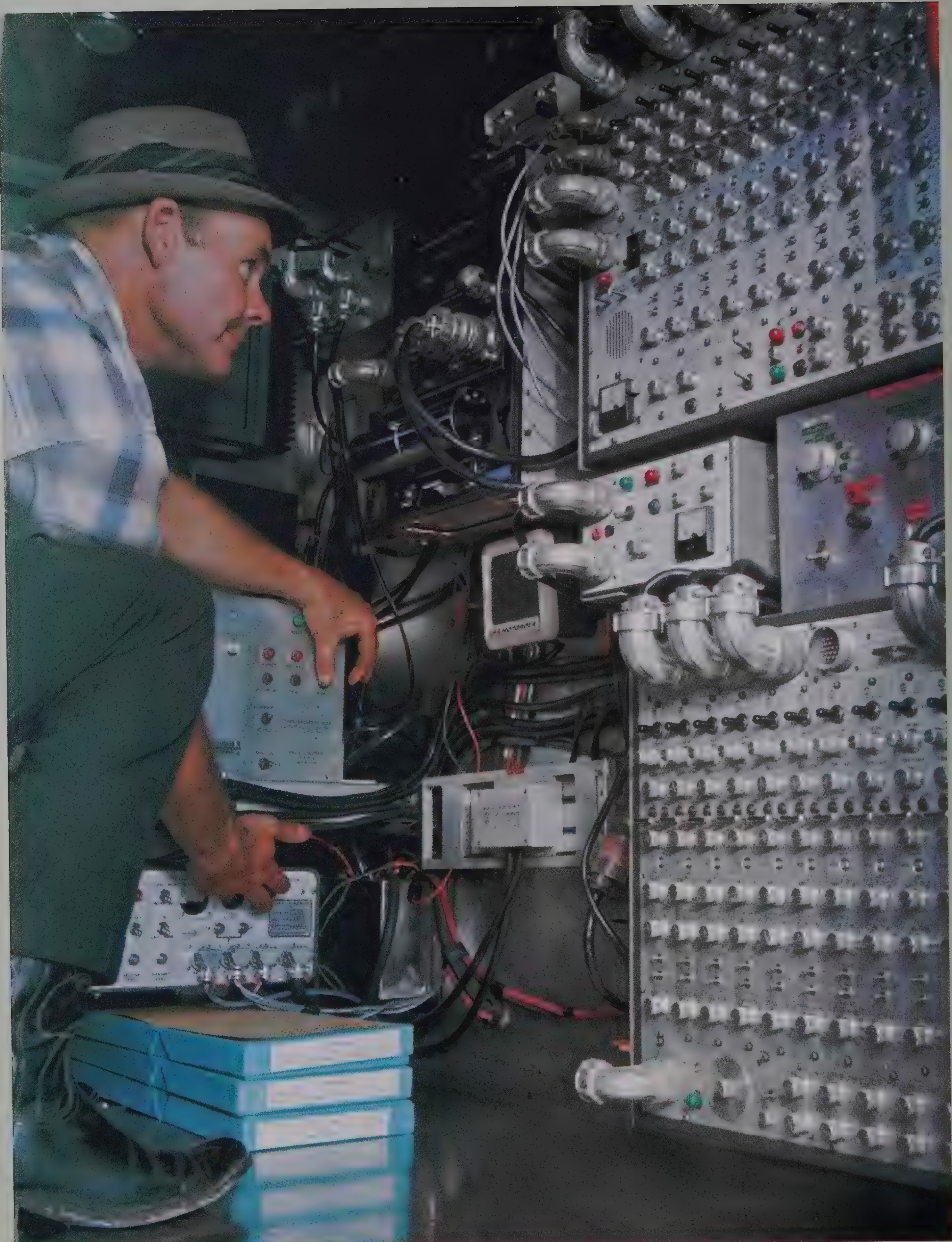
Capital expenditures totaled $246,718,000 in 1967, down slightly from the $255,353,000 in 1966. Approximately 69 percent or $170,050,000 of 1967 capital investment was expended in exploration and production operations compared with 59 percent or $149,494,000 in 1966. The company plans to continue its emphasis on finding and developing oil, gas and mineral reserves.

Total Assets

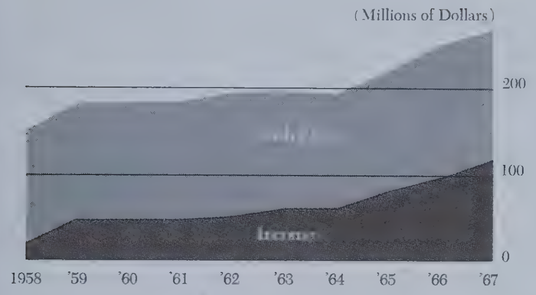
Total assets for the consolidated companies at December 31, 1967, amounted to $1,719,570,000, an increase of $43,667,000 over the $1,675,903,000 at December 31, 1966.

Long-Term Debt

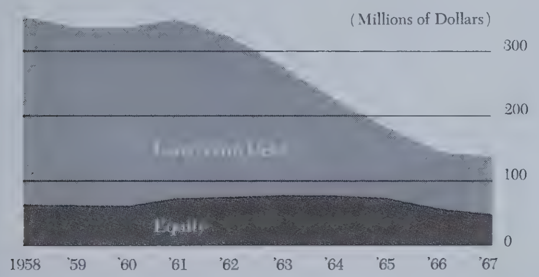
Long-term debt, including current portion, amounted to $139,184,000 at the end of 1967 compared with $142,700,000 at 1966 year end. Skelly's



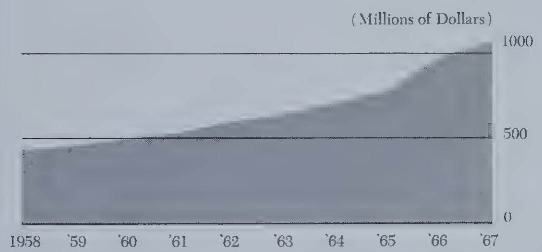
Income Before Extraordinary Items and Cash Flow



Long-Term Debt Including Current Portion and Preferred Equity



Common Stockholders' Equity



Utilizing the newest technological equipment and the latest scientific knowledge, Getty Oil Company participated in geophysical programs in California, the Mid-Continent areas, southern coastal states and the Gulf of Mexico.

expansion program during 1967 was financed in part by additional long-term debt.

Stockholders' Equity

As a result of the merger of Mission Development Company and its subsidiary Tidewater Oil Company into Getty Oil Company each share of former Tidewater Oil Company common stock was converted into 1.186 shares of Getty Oil Company common stock; Tidewater common treasury shares and shares owned by Mission Development and Getty Oil were cancelled, and each share of Tidewater preferred stock, including treasury stock, was converted into one share of a new identical-in-substance class of Getty Oil $1.20 cumulative preferred stock, $25 par value. Each share of Mission Development common stock, except those owned by Getty Oil which were cancelled, was converted into 1.6688 shares of common stock of Getty Oil. Each share of Getty Oil common stock became a share of common stock of the surviving corporation. Instructions for the exchange of certificates were sent to Tidewater and Mission Development stockholders on October 2, 1967.

Consolidated common stockholders' equity increased $108,575,000 during 1967 and amounted to $1,073,689,000 at year end, equal to $53.15 per share. This compares with $965,114,000 equal to $47.78 per share at 1966 year end.

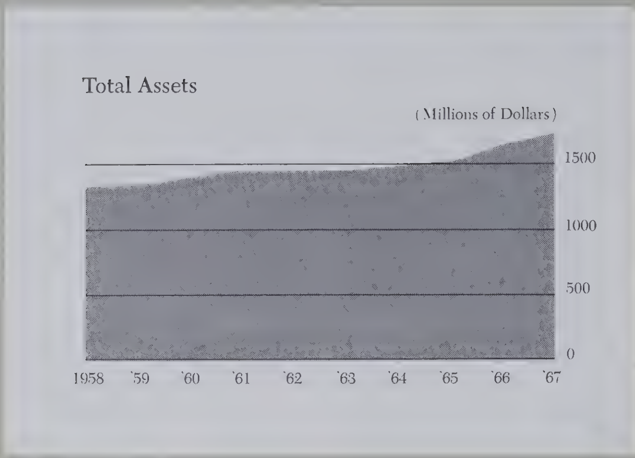
Production and Exploration

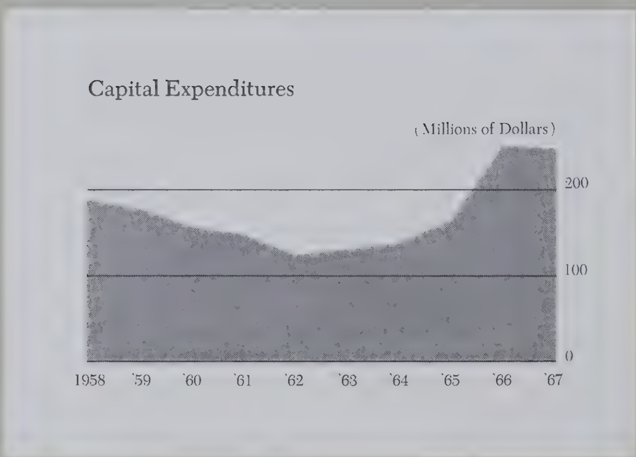
Net production of crude oil and natural gas liquids for the consolidated companies increased to a new high in 1967, averaging 385,000 barrels per day, a gain of four percent over 1966. Production increases resulted from intensified drilling activities in major producing areas, higher allowables in prorated producing states, further improvement of production techniques and the continued success of thermal and other additional recovery programs.

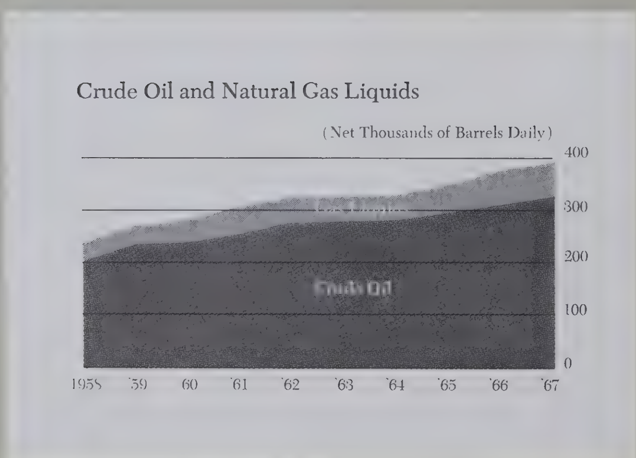
Net natural gas sales averaged one billion cubic feet daily in 1967, an increase of eight percent over 1966.

The consolidated companies participated in drilling 624 net wells in 1967, a three percent increase over the 607 net wells drilled in 1966. Of the wells drilled in 1967, 532 were either oil or gas producers and 92 were dry holes.

In Wyoming's Shirley Basin, the consolidated companies are engaged in the production and milling of







uranium through a 50 percent interest in Petrotomics Company. In addition, in the Shirley Basin, the consolidated companies own one of the large uranium reserves in the United States. A joint uranium exploration venture is being conducted by the companies in the western United States.

Marketing

In 1967 consolidated sales of refined petroleum products averaged 257,000 barrels per day compared with 331,000 barrels per day in 1966. The decline in refined products sales in 1967 was primarily because of the sale of the former Tidewater western marketing and manufacturing assets and related transportation facilities in July 1966.

Manufacturing

Refineries of the consolidated companies processed an average of 246,000 barrels per day in 1967, a decline of 20 percent from the previous year. This reflected the sale of the former Tidewater refinery at Avon, California, to Phillips Petroleum Company in July 1966.

Transportation

Significant factors in the transportation activities of the consolidated companies for 1967 were the construction of a new 16-inch pipeline in the Saudi Arabia-Kuwait Neutral Zone, as reported in detail on Page 29, and the leasing of a new 20-inch heated crude oil pipeline in California to transport San Joaquin Valley crude oil to the San Francisco Bay refinery market. A subsidiary company has contracted for the construction of a new supertanker of 127,000 deadweight tons, which will make it the largest vessel in the international subsidiary fleet.

Additional Operations

Expansion into other profitable operations continued. Part of this expansion and diversification program was directed toward minerals, chemicals and wood products, which are discussed elsewhere in this annual report.

George F. Getty II
Executive Vice President

J. Paul Getty
President

Getty Oil Company and Subsidiaries
Consolidated Statement of Income

	1967	1966
REVENUES:		
Sales, including consumer taxes, and other operating revenues (Note 10)	$1,135,553,000	$1,218,567,000
Dividends, interest and other income	24,705,000	17,857,000
	1,160,258,000	1,236,424,000
COSTS AND EXPENSES:		
Crude oil, products and merchandise costs, and operating expenses	632,709,000	644,768,000
Exploration and dry hole costs, and undeveloped lease amortization	44,032,000	41,160,000
Selling, general and administrative expenses	88,878,000	119,988,000
Taxes, including income taxes (Note 10)	150,304,000	202,113,000
Depreciation and depletion	98,119,000	101,433,000
Interest on indebtedness	8,738,000	8,749,000
	1,022,780,000	1,118,211,000
INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEMS	137,478,000	118,213,000
Less minority interest in income of consolidated subsidiaries	(22,489,000)	(20,175,000)
INCOME BEFORE EXTRAORDINARY ITEMS AND MINORITY INTEREST IN TIDEWATER	114,989,000	98,038,000
Less minority interest in Tidewater not accounted for on a pooling of interests basis	—	(5,760,000)
INCOME BEFORE EXTRAORDINARY ITEMS	114,989,000	92,278,000
EXTRAORDINARY ITEMS BEFORE MINORITY INTEREST IN TIDEWATER	3,177,000	122,037,000
Less minority interest in Tidewater not accounted for on a pooling of interests basis	—	(7,397,000)
EXTRAORDINARY ITEMS (Note 3)	3,177,000	114,640,000
NET INCOME	$ 118,166,000	$ 206,918,000
EARNINGS PER SHARE OF COMMON STOCK:		
Income before extraordinary items	$ 5.56	$ 4.42
Extraordinary items	.16	5.67
Net income	$ 5.72	$ 10.09

The accompanying notes are an integral part of this statement.

Getty Oil Company and Subsidiaries
Consolidated Statement of Source and Disposition of Funds

	1967	1966
SOURCE		
Income before minority interest and extraordinary items	$137,478,000	$118,213,000
Depreciation and depletion	98,119,000	101,433,000
Amortization of undeveloped leases and dry-hole costs	31,111,000	28,497,000
Cash flow from operations	266,708,000	248,143,000
Dispositions of property, facilities, equipment, etc.	25,143,000	324,990,000
Total	$291,851,000	$573,133,000
DISPOSITION		
Capital expenditures, including dry-hole costs	$246,718,000	$255,353,000
Increase (decrease) in investments and long-term receivables	(4,622,000)	107,554,000
Reduction of long-term debt (net)	2,938,000	42,703,000
Increase in working capital	14,151,000	49,833,000
Decrease (increase) in deferred income and noncurrent reserves	(4,624,000)	3,681,000
Purchase of preferred stock and common minority interest	21,521,000	104,046,000
Cash dividends		
To Getty Oil Company common stockholders	1,598,000	1,598,000
To common and preferred minority stockholders of former subsidiaries	7,893,000	3,008,000
To minority stockholders of consolidated subsidiaries	6,278,000	5,357,000
Total	$291,851,000	$573,133,000

The accompanying notes are an integral part of this statement.

Consolidated Balance Sheet

Assets	December 31 1967	1966
CURRENT ASSETS:		
Cash	$ 31,647,000	$ 40,567,000
Marketable securities — at cost, which approximates market	128,090,000	15,439,000
Notes receivable	12,984,000	180,036,000
Accounts receivable, less reserves of $1,979,000 in 1967 and $2,151,000 in 1966 for doubtful accounts	155,313,000	155,499,000
Inventories, at cost (Note 4)		
Crude oil, refined and other products	63,491,000	52,930,000
Materials and supplies	19,613,000	18,429,000
Prepaid expenses and other current assets	15,172,000	10,543,000
Total current assets	426,310,000	473,443,000
INVESTMENTS AND ADVANCES (Note 1)	72,321,000	67,967,000
LONG-TERM RECEIVABLES	105,691,000	114,667,000
PROPERTY, FACILITIES AND EQUIPMENT — at cost less accumulated depreciation, depletion and amortization (Note 5)	1,115,248,000	1,019,826,000
	$1,719,570,000	$1,675,903,000

Liabilities and Stockholders' Equity

	1967	1966
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 8,326,000	$ 8,904,000
Notes payable	24,050,000	67,180,000
Accounts payable and accrued liabilities	125,507,000	117,089,000
Income taxes	24,248,000	50,242,000
Total current liabilities	182,131,000	243,415,000
LONG-TERM DEBT (Note 6)	130,858,000	133,796,000
DEFERRED INCOME AND NONCURRENT RESERVES (Note 7)	51,716,000	47,092,000
Total liabilities	364,705,000	424,303,000
MINORITY INTEREST IN SUBSIDIARIES (Notes 1 and 2)	228,326,000	229,730,000
STOCKHOLDERS' EQUITY (Notes 2, 6 and 8):		
Preferred	52,850,000	56,756,000
Common	1,073,689,000	965,114,000
Total stockholders' equity	1,126,539,000	1,021,870,000
	$1,719,570,000	$1,675,903,000

The accompanying notes are an integral part of this statement.

Getty Oil Company and Subsidiaries
Consolidated Statement of Stockholders' Equity

	1967 Shares	1967 Amount	1966 Shares	1966 Amount
PREFERRED STOCKHOLDERS' EQUITY (Notes 2 and 8):				
Authorized preferred stock, $1.20 cumulative,				
$25 par value, at year end	2,679,083		(Note 2)	
Issued at beginning of year	2,760,917	$ 69,023,000	2,842,751	$ 71,069,000
Treasury stock retired under issue provisions	(81,834)	(2,046,000)	(81,834)	(2,046,000
	2,679,083	66,977,000	2,760,917	69,023,000
Stock held in treasury, at par value	(565,069)	(14,127,000)	(490,669)	(12,267,000
Preferred stockholders' equity	2,114,014	$ 52,850,000	2,270,248	$ 56,756,000
COMMON STOCKHOLDERS' EQUITY (Notes 2, 6 and 8):				
Authorized common stock, $4 par value, at year end	22,000,000		(Note 2)	
Issued at beginning of year	20,221,149	$ 80,885,000	16,004,228	$ 64,017,000
Issued to minority stockholders of subsidiaries				
in connection with merger	—	—	4,216,921	16,868,000
Issued under stock options	225	1,000	—	—
Balance at end of year	20,221,374	80,886,000	20,221,149	80,885,000
Capital in excess of par value of capital stock —				
Balance at beginning of year		68,948,000		38,144,000
Excess of minority stockholders' interest in capital stock and				
capital surplus of subsidiaries over par value of common				
stock received in connection with merger		—		30,804,000
Excess of proceeds over par value of stock issued under options		4,000		—
Excess of par value over cost of preferred stock purchased		70,000		—
Balance at end of year		69,022,000		68,948,000
Retained earnings reinvested —				
Balance at beginning of year		815,546,000		503,454,000
Minority stockholders' interest in retained earnings of				
subsidiaries merged into company		—		109,780,000
Net income for the year		118,166,000		206,918,000
Cash dividends —				
Preferred stock — $1.20 per share		(2,571,000)		(3,008,000
Common stock —				
Minority stockholders of former subsidiaries		(5,322,000)		—
Getty stockholders prior to merger — $.10 per share		(1,598,000)		(1,598,000)
Balance at end of year		924,221,000		815,546,000
Stock held in treasury, at cost	(21,848)	(440,000)	(20,000)	(265,000
Common stockholders' equity	20,199,526	$1,073,689,000	20,201,149	$965,114,000

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

NOTE 1 — PRINCIPLES OF CONSOLIDATION

The accounts of all domestic and foreign wholly-owned subsidiaries and those of the majority owned subsidiary (a 69.72% interest), Mission Corporation, and that company's subsidiary (a 71.01% interest), Skelly Oil Company, are included in the consolidated financial statements. The company's former subsidiary, Mission Development Company, and its subsidary, Tidewater Oil Company, were merged into the company during 1967 — See Note 2. The 1966 consolidated financial statements have been retroactively restated on a pooling of interests basis to reflect this merger.

The company's equity in the net assets of its consolidated subsidiaries exceeded the cost of its investment by $214,117,000 at December 31, 1967. This is a net amount of which $220,313,000 representing the share in the subsidiaries' earnings since dates of acquisition has been credited in consolidation to retained earnings; the balance of $6,196,000 representing the excess of cost over underlying book value of the investments at dates of acquisition, less amortization to date, has been charged to property, facilities and equipment. Also included in the consolidated financial statements is the 50 per cent interest of Skelly in the assets, liabilities and operations of an unincorporated joint venture. The company's investment in Vangas, Inc., a 70.64% owned, unconsolidated subsidiary, has been adjusted to include its share of earnings retained by that company.

Net foreign assets at the end of 1967 were $204,000,000 and net foreign income for 1967 was $20,000,000. Comparable income for 1966 was $16,091,000. Foreign subsidiaries' accounts reflected in the financial statements are expressed in United States dollars as follows: current assets and liabilities at the prevailing rates of exchange at December 31, 1967; investments and fixed assets at rates in effect when the assets were acquired; and the income accounts at the average rates of exchange during the year, except for depreciation charges which are calculated at rates in effect when the assets were acquired. The resulting gains or losses upon devaluation and conversion of foreign currencies are not significant and are included in net income.

Investments and advances included in net foreign assets above include a 49.7% interest in Mitsubishi Oil Company, a refiner and marketer of petroleum products in Japan. The company's equity at the end of 1967 in the net assets of Mitsubishi is approximately $8,381,000 in excess of the carrying value of its investment of $12,490,000. The company's share of the 1967 net income of Mitsubishi is approximately $1,704,000 as compared to dividends received of $1,104,000.

NOTE 2 — MERGER OF FORMER SUBSIDIARIES

In accordance with the terms of a Plan and Agreement of Merger, the company's former subsidiary, Mission Development Company, and that company's subsidiary, Tidewater Oil Company, were merged into the company during 1967. The company's interest in the common stocks of Mission Development and Tidewater as of the date of merger was as follows:

Getty Oil owned 82.71% of Mission Development.
Mission Development owned 57.63% of Tidewater.
Getty Oil owned 22.82% of Tidewater, resulting in a combined direct and indirect interest of 70.49%.

In connection with the merger, the company issued its preferred and common stock to the minority stockholders of Mission Development and Tidewater (and cancelled the shares representing the investment in these companies) as follows:

(a) Issued 2,793,457 shares of Getty Oil common stock in the ratio of 1.186 shares for each of the minority stockholders' 2,355,360 shares of Tidewater common stock.
(b) Issued 1,423,464 shares of Getty Oil common stock in the ratio of 1.6688 shares for each of the minority stockholders' 852,986 shares of Mission Development common stock.
(c) Issued 2,679,083 shares of Getty Oil $1.20 cumulative preferred stock, $25 par value, for a like number of shares of Tidewater $1.20 cumulative preferred stock, $25 par value (including 543,469 shares held in Tidewater's treasury for application to future sinking fund requirements).

The merger has been accounted for on the pooling of interests basis. Therefore, capital surplus and retained earnings have been increased, respectively, by the excess of the minority stockholders' interest in the common stock and capital surplus of Mission Development and Tidewater over the par value of the Getty Oil common stock issued to them, and their interest in the retained earnings of those companies. The 1966 consolidated financial statements have been retroactively restated on a pooling of interests basis to reflect this merger.

NOTE 3 — EXTRAORDINARY ITEMS

Extraordinary items, less related Federal and state income taxes, are as follows:

	1967	1966
Gain on sale of Tidewater's western marketing, manufacturing, and related facilities (Note 11)	$ —	$111,368,000
Gain on disposition of Skelly's investment in Great Lakes Pipe Line Company	—	19,720,000
Other	3,177,000	(70,000)
Total (net of income taxes of $791,000 in 1967 and $32,700,000 in 1966)	3,177,000	131,018,000
Less minority interest in consolidated subsidiaries	—	(8,981,000)
Extraordinary items before minority interest in Tidewater	3,177,000	122,037,000
Less minority interest in Tidewater not accounted for on a pooling of interests basis	—	(7,397,000)
	$3,177,000	$114,640,000

To comply with new reporting requirements effective in 1967, those items reported in the 1966 financial statements as special items after net income have been restated as extraordinary items and included in net income.

NOTE 4 — INVENTORIES

Crude oil, refined and other products as of December 31, 1967, are stated at cost, determined principally on a last-in first-out method. Such inventories are substantially below market.

During 1967, the company and Skelly changed from the average cost method of valuing such inventories to the last-in first-out method. This change had no material effect on the accompanying financial statements. Tidewater had consistently used the last-in first-out method of determining cost for the major portion of its crude oil, refined and other products inventories. The inventory amounts used in the determination of income for 1967 are as follows:

December 31, 1966	$52,930,000
December 31, 1967	63,491,000

Materials and supplies are priced at or below cost.

NOTE 5 — PROPERTY, FACILITIES AND EQUIPMENT

The segregation of property, facilities and equipment at December 31, 1967, by major operating function is as follows:

	Gross Investment	Reserves	Net Investment
Exploration and production	$1,509,299,000	$ 901,193,000	$ 608,106,000
Transportation	152,224,000	66,390,000	85,834,000
Manufacturing	453,147,000	212,533,000	240,614,000
Marketing	204,575,000	85,457,000	119,118,000
Other	84,263,000	22,687,000	61,576,000
Total	$2,403,508,000	$1,288,260,000	$1,115,248,000

The net investment in undeveloped oil and gas properties and leaseholds included above is $57,742,000. The costs of undeveloped leaseholds are amortized from date of acquisition to provide, based on company experience, for abandonment of those which may be unproductive.

Depreciation and depletion of the cost of developed oil and gas properties, including intangible drilling costs which are capitalized, are provided on a unit-of-production basis. Exploration costs and dry hole losses are charged currently to income. It is not practicable to summarize depreciation and amortization rates (which are generally applied on a straight-line basis) applicable to other assets because of the variety of properties and numerous rates used. These rates are reviewed annually and are revised as deemed necessary.

Properties retired or otherwise disposed of are removed from the property accounts. Gains and losses on disposition of complete units are reflected currently in income; however, if material, such gains and losses are classified as extraordinary items. Gains or losses on disposition or retirement of minor facilities or partial units are treated as adjustments of the reserve accounts. Replacement cost of major portions of facilities and all betterments are capitalized. Expenditures for maintenance, repairs and minor replacements are charged to operating expenses currently.

NOTE 6— LONG-TERM DEBT

The long-term debt at December 31, 1967 and 1966, consisted of the following obligations:

	1967	1966
Getty Oil Company —		
Bank notes, 3¼%, payable $5,000,000 semi-annually through July 1969	$ 10,000,000	$ 20,000,000
Sinking fund debentures, 3½%, due April 1, 1986, net of $16,824,000 of debentures held in treasury at December 31, 1967, which may be used to satisfy semi-annual sinking fund requirements of $1,250,000 beginning in October 1969	33,176,000	39,900,000
Tanker financing notes, 3⅝ to 5% payable in monthly and quarterly installments over 7 to 13 years	18,345,000	20,010,000
Other	1,652,000	11,622,000
	63,173,000	91,532,000
Skelly Oil Company —		
Industrial revenue bonds, 3.8 to 4.2%, due 1969 to 1991	30,000,000	30,000,000
Notes payable, 6 to 6½%, due 1969 to 1971	31,100,000	6,600,000
Other	6,585,000	5,664,000
	67,685,000	42,264,000
	$130,858,000	$133,796,000

In addition, indebtedness maturing within one year of $8,326,000 at December 31, 1967, and $8,904,000 at December 31, 1966, has been included in current liabilities.

The bank credit agreement and preferred stock issue contain provisions which restrict the payment of cash dividends on common stock and the purchase or redemption of such stock. At December 31, 1967, approximately $185,000,000 of consolidated retained earnings was restricted under the most restrictive of these provisions.

NOTE 7 — DEFERRED INCOME AND NONCURRENT RESERVES

	December 31	
	1967	1966
Sales of future oil production	$19,510,000	$14,053,000
Gain on sale of offshore properties	9,653,000	10,644,000
Gain on sale of hotel property	10,467,000	10,467,000
Noncurrent reserves and other deferred income	12,086,000	11,928,000
	$51,716,000	$47,092,000

It is anticipated that the future oil production sold will be substantially produced during 1968 and will be recorded in income as produced.

The deferred gain on the sale in 1961 of leasehold interests in Ship Shoal Block 176, offshore Louisiana, is being taken into income currently as installment payments are received. (See Note 11 — Litigation.)

The gain on the sale of the hotel property is recorded on the installment basis as payments on the principal are received; payments on principal have been waived until 1974.

NOTE 8 — CAPITAL STOCK

Under the sinking fund provisions of the preferred stock, the company is required to redeem at its $25 par value 40,917 shares on each January 10 and July 10. Under such provisions, 81,834 shares were retired during 1967.

Options granted under a discontinued plan of the former Tidewater were exercised for the equivalent of 2,834 shares

in 1967 and 18,110 shares in 1966, and options to purchase 474 shares remained outstanding at December 31, 1967.

In addition, at December 31, 1967, Skelly had options outstanding for the purchase of 16,375 shares of its common stock under the terms of a Restricted Stock Option Plan. These options are exercisable at prices ranging from $22.80 to $28.80 per share and expire at varying dates from 1969 through 1972. Under the provisions of the Plan, additional options may be granted until 1970 for 130,000 shares at prices not less than the fair market value on the dates such options are granted. During 1967 and 1966, no options were granted, but options previously granted were exercised for 10,875 shares and 9,000 shares, respectively.

NOTE 9 — PENSIONS

The companies have several pension and retirement plans which provide for the funding of the costs of prior and current service through trust funds. The total pension expense was $7,891,000 in 1967 and $9,919,000 in 1966, which includes amortization of prior service cost over periods ranging from 10 to 30 years. Skelly Oil Company, a consolidated subsidiary, amended its retirement plan in 1967 to provide for increased benefits to employees retiring subsequent to January 1, 1968. The past service costs applicable to this amendment will be spread over the average future service lives of all employees, actuarially computed under the aggregate method. The plans are entirely voluntary and may be modified or discontinued at any time by the companies. The totals of the pension funds as of December 31, 1967, are sufficient to cover the actuarially computed value of vested benefits under the plans.

NOTE 10 — TAXES, INCLUDING INCOME TAXES

	1967	1966
Operating taxes		
Property	$ 15,438,000	$ 17,198,000
Severance and production	13,265,000	12,182,000
Payroll and other	5,284,000	5,522,000
	33,987,000	34,902,000
Consumer excise taxes	94,061,000	148,362,000
Income taxes		
U.S.-Federal and state	12,432,000	12,134,000
Foreign	9,824,000	6,715,000
	22,256,000	18,849,000
	$150,304,000	$202,113,000

Consumer taxes collected have been included in sales and other operating revenues.

Federal and state income taxes above are exclusive of provisions of $791,000 in 1967 and $32,700,000 in 1966 which have been offset against the gain on sale of assets reflected as extraordinary items.

The amounts provided for Federal income taxes are after reductions for investment credit of $5,688,000 in 1967 and $6,736,000 in 1966. Provision is made for applicable taxes on dividends, including those from subsidiaries, as received.

NOTE 11 — LITIGATION

The United States, through the Department of Justice, filed suit in 1966 under the antitrust laws to block the sale of the former Tidewater's western marketing and manufacturing assets and certain related transportation facilities to Phillips Petroleum Company. The U.S. District Court has denied the Department of Justice's motion for a temporary restraining order and a motion for a preliminary injunction. The Department has stated that it intends to press the case. No trial date has been set.

The Federal Power Commission's assertion of jurisdiction over the 1961 sale of certain Federal leases in Ship Shoal Block 176, offshore Louisiana, by the CAGC Group, in which the company has a twenty-five percent interest, was sustained by the United States Supreme Court in June 1967. Pursuant to a commission order the company has until March 28, 1968, to comply with the provisions of the Natural Gas Act and, in this regard, negotiations among the interested parties have been in progress for some time. Although the ultimate consideration to be received by the company in respect of such sale may be reduced, in the opinion of management the reduction, if any, will not have a material or significant effect on the company's financial position.

NOTE 12 — COMMITMENTS AND CONTINGENT LIABILITIES

Minimum annual rentals under long-term leases, principally for the crude oil pipeline in California, tankers and service stations, but excluding oil and gas leases, are estimated to be $16,300,000 in 1968. The net fixed annual rentals on these leases are not expected to differ significantly through 1972.

There are contingent liabilities with respect to other pending litigation, claims, commitments, etc., the settlement of which will not, in the opinion of the companies concerned, result in any material loss.

Auditors' Report

To the Stockholders and Board of Directors,
Getty Oil Company:

We have examined the consolidated balance sheet of Getty Oil Company (a Delaware corporation) and subsidiaries as of December 31, 1967 and 1966, and the related statements of income, stockholders' equity, and source and disposition of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1966 consolidated financial statements of Tidewater Oil Company (a consolidated subsidiary merged into the company in 1967) whose total assets and revenues represent approximately 60 and 65 percent, respectively, of the consolidated amounts in that year, but we were furnished with the report of other auditors on such financial statements.

In our opinion, based upon our examinations and the report of other auditors referred to above, the above mentioned financial statements present fairly the consolidated financial position of Getty Oil Company and subsidiaries as of December 31, 1967 and 1966, and the results of their operations and the source and disposition of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, after giving retroactive effect to the inclusion, which we approve, in 1966 net income of extraordinary items previously reported after net income as explained in Note 3 to the consolidated financial statements.

Arthur Andersen & Co.

Los Angeles, California,
February 15, 1968.

Ten Year Consolidated Financial Statistics

(Dollar amounts in thousands except per share amounts)

	1967	1966	1965
FINANCIAL			
Sales and other revenues (including consumer taxes)	$ 1,160,258	$ 1,236,424	$ 1,200,182
Income before extraordinary items (1)	114,989	92,278	74,815
Per common share (2)	5.56	4.42	3.53
Net income (1)	118,166	206,918	75,996
Per common share (2)	5.72	10.09	3.59
Cash flow from operations	266,708	248,143	220,848
Net working capital (3)	244,179	230,028	180,195
Current ratio (3)	2.34 to 1	1.95 to 1	2.06 to 1
Property, facilities and equipment, net (3)	1,115,248	1,019,826	1,088,375
Capital expenditures			
Exploration and production	170,050	149,494	118,428
Manufacturing	41,674	56,190	14,562
Marketing	17,659	20,491	18,909
Transportation and other	17,335	29,178	16,058
Total	246,718	255,353	167,957
Total assets (3)	1,719,570	1,675,903	1,514,436
Long-term debt, including current portion (3)	139,184	142,700	187,876
Minority interest in subsidiaries (3)	228,326	229,730	283,463
STOCKHOLDERS			
Preferred stockholders			
Number of stockholders (3)	7,085	8,050	8,673
Stockholders' equity (3)	52,850	56,756	70,113
Cash dividends	2,571	3,008	3,396
Common stockholders			
Number of stockholders	21,205	Not applicable due to merger	
Shares outstanding (4)	20,199,526	20,201,149	20,201,149
Stockholders' equity			
Amount (3)	1,073,689	965,114	762,802
Per share (3) (4)	53.15	47.78	37.76
Cash dividends	6,920 (5)	1,598	1,598

(1) Adjusted for minority interest in Tidewater not accounted for on a pooling of interests basis.

(2) Based on the weighted average number of shares outstanding during each year giving effect to the pooling of interests and adjusted for stock dividends.

(3) At December 31.

1964	1963	1962	1961	1960	1959	1958
$ 1,145,718	$ 1,118,828	$ 1,100,479	$ 1,063,066	$ 1,021,814	$ 999,824	$ 965,496
54,058	55,018	47,824	39,644	40,595	39,753	17,718
2.50	2.55	2.19	1.78	1.87	1.82	.73
65,977	58,927	50,951	39,644	42,056	43,671	17,502
3.09	2.74	2.34	1.78	1.94	2.01	.72
189,106	191,354	189,653	179,841	179,654	179,399	146,389
204,380	183,212	151,867	168,174	163,599	167,611	182,679
2.37 to 1	2.27 to 1	1.90 to 1	1.98 to 1	2.13 to 1	2.32 to 1	2.32 to 1
1,051,563	1,042,436	1,052,689	1,061,199	1,043,691	1,011,726	963,194
86,274	63,763	65,702	86,216	94,034	98,980	84,761
13,062	27,015	29,902	24,456	19,340	21,234	33,928
16,556	15,168	16,058	23,892	24,845	25,651	27,432
21,952	25,373	10,511	11,567	18,688	30,784	41,923
137,844	131,319	122,173	146,131	156,907	176,649	188,044
1,480,842	1,439,497	1,444,222	1,467,834	1,394,893	1,359,362	1,335,131
234,448	274,846	322,351	349,928	335,233	336,651	346,090
279,150	277,963	309,966	337,492	371,076	377,064	364,971
9,247	10,145	10,209	10,659	7,443	7,421	7,189
72,364	74,390	75,667	77,520	59,278	61,613	62,393
3,497	3,595	3,665	3,754	2,889	2,984	3,250
20,201,149	20,201,149	20,201,149	20,204,149	20,204,149	20,088,127	19,961,440
691,800	630,918	577,184	529,937	494,047	455,106	426,547
34.25	31.23	28.57	26.23	24.45	22.51	21.09
1,598	1,598	—	—	—	—	—

(4) Represents or based on the number of shares outstanding at each year end giving effect to the pooling of interests.
(5) Includes cash dividends of $5,322,000 paid to minority common stockholders of former subsidiaries.

Ten Year Consolidated Operating Statistics

	1967	1966	1965
EMPLOYEES			
Number of employees (1)	12,940	13,053	14,840
Payroll — thousands of dollars	96,939	104,740	109,049
EXPLORATION — PRODUCTION			
Production — net barrels daily			
Crude oil	330,031	318,255	294,627
Natural gas liquids	54,916	52,235	51,175
Total	384,947	370,490	345,802
Recoverable reserves — net (1) (2)			
Crude oil — thousands of barrels	2,083,000	1,999,000	1,887,000
Natural gas liquids — thousands of barrels	117,000	109,000	114,000
Total	2,200,000	2,108,000	2,001,000
Natural gas — billion cubic feet	3,361	3,342	3,150
Producing wells owned — net (1)	13,209	13,172	13,023
Wells drilled — net			
Producing	532	519	347
Dry	92	88	88
Total	624	607	435
Acreage holdings — net (1)			
Producing	1,187,000	1,156,000	1,129,000
Prospective —			
Oil and gas	3,300,000	3,932,000	4,281,000
Minerals	16,000	16,000	109,000
Total	3,316,000	3,948,000	4,390,000
Sales —			
Crude oil — thousands of barrels	175,282	152,004	124,276
Natural gas — million cubic feet	365,021	337,807	326,140
MANUFACTURING			
Refinery thruput: own account — thousands of barrels	75,507	98,732	110,460
others — thousands of barrels	14,128	13,621	12,429
Net production — thousands of barrels	140,506	135,229	126,218
Percentage of net production to refinery thruput (own account)	186.1	137.0	114.3
MARKETING			
Sales of petroleum products — thousands of barrels	93,849	120,633	129,758
Bulk plants — owned or leased (1)	529	539	781
Service stations — owned or leased (1)	2,692	2,844	5,034

(1) At December 31.

(2) Recoverable reserves for 1966 and 1967 are DeGolyer and MacNaughton estimates. For prior years the reserve estimates were principally those of DeGolyer and MacNaughton, with minor amounts included based upon estimates of company engineers. Reserves for Skelly Oil Company are not included.

1964	1963	1962	1961	1960	1959	1958
14,703	14,732	15,056	15,258	15,584	16,606	16,836
105,882	105,500	102,500	102,180	98,942	101,716	99,460
276,918	271,358	272,000	258,457	241,189	233,603	203,414
49,793	49,141	46,499	44,883	40,215	38,438	36,057
326,711	320,499	318,499	303,340	281,404	272,041	239,471
1,446,000	1,292,000	1,231,000	1,343,000	1,333,000	1,356,000	1,311,000
122,000	108,000	114,000	121,000	111,000	108,000	97,000
1,568,000	1,400,000	1,345,000	1,464,000	1,444,000	1,464,000	1,408,000
3,221	3,244	3,369	3,536	3,489	3,537	3,313
12,575	12,159	12,222	12,292	11,750	11,621	11,446
324	361	328	387	581	637	504
84	77	89	79	89	142	122
408	438	417	466	670	779	626
1,077,000	1,064,000	1,008,000	1,019,000	983,000	982,000	935,000
4,492,000	5,410,000	6,669,000	7,204,000	7,784,000	8,627,000	8,573,000
186,000	2,155,000	13,000	4,000	3,000	13,000	65,000
4,678,000	7,565,000	6,682,000	7,208,000	7,787,000	8,640,000	8,638,000
109,128	99,003	92,708	82,265	75,491	70,954	68,439
316,637	299,843	276,772	266,674	268,073	258,137	246,826
114,009	114,524	122,457	129,645	122,659	113,533	109,756
10,078	14,914	15,680	2,932	1,570	2,256	2,844
119,250	116,982	116,252	110,719	102,994	99,295	87,407
104.6	102.1	94.9	85.4	84.0	87.5	79.6
130,852	128,662	133,042	130,854	121,812	106,872	110,829
797	807	819	822	800	798	798
5,141	5,250	5,222	5,232	5,027	4,683	4,370

Review of Getty Oil Company and Wholly-Owned Subsidiaries

During 1967 Getty Oil Company participated in this wildcat, the Tubb Estate No. 1, which was completed as a gas producer in Wolfe field, Winkler County, Texas, early in 1968.

Production

Net liquids production of Getty Oil Company and its wholly-owned subsidiaries averaged 282,000 barrels per day, a gain of two percent over the 276,000 barrels averaged daily in 1966. Natural gas sales rose eight percent to an average of 609 million cubic feet daily, compared with 562 million cubic feet averaged daily in the preceding year.

The 1967 production gain indicates the success of the company's long-standing policy of fully developing known reservoirs along with exploring for new reserves.

During 1967 Getty Oil participated in the drilling of 472 net development wells compared with 417 wells in 1966. The 1967 total included 366 net development wells drilled in California, primarily in con-


REMOTE
REMOTE
REMOTE

nection with extensive thermal recovery operations in the San Joaquin Valley, and 106 net development wells in the Mid-Continent, Gulf Coast, Texas, and other southern states, in the Saudi Arabia-Kuwait Neutral Zone, and in Algeria.

Significant development drilling in Texas included the Teas and Rischers Store fields in Freestone County. Four additional wells have been completed following the two gas discoveries in these areas earlier in the year. Further drilling is planned. In Midland County, West Texas, two gas condensate wells were completed, confirming an earlier extension test of the Spraberry (Devonian) field.

In Plaquemines Parish, Louisiana, a successful development well further evaluated the additional reserves found by an earlier exploratory test on the north flank of the Venice Dome. As a result, the company may exercise an option to acquire a leasehold interest in 12 sections of land adjacent to its holdings in the Venice field. Another deeper test was drilling at year end.

Additional Recovery Programs

Additional recovery programs, including waterflooding and thermal recovery operations, continued during the year and contributed significantly to reserves and increased crude liquids production.

In California 105 steam generators were employed in the recovery of heavy crude oil from approximately 2,430 wells. Principal thermal recovery operations are in the Kern River field, where company production has nearly tripled since steam stimulation began in January 1964.

Development of the large North McElroy waterflood unit in Crane and Upton counties, Texas, began on January 1, 1967. Getty Oil is the operator and holds an approximate 17 percent interest in the unit, which has some 700 producing wells on more than 13,000 acres. Water injection is scheduled to begin by mid-1968.

During the first half of 1967, Getty Oil as operator began a program to complete the development of an existing waterflood in the C. S. Dean A Unit located in the Slaughter and Levelland fields of Cochran County, Texas. In the initial phase 40 of the existing producing wells were deepened and waterflood response was experienced in midyear, effecting a substantial production increase. Additional producers and injection wells are being drilled to develop the unit on a 40-acre spacing.

On July 1, 1967, a fieldwide producing unit became effective for the high pressure gas condensate Southdown sand in the Hollywood field of Terrebonne Parish, Louisiana. Getty Oil holds an 83.6 percent working interest and is the unit operator.

Development of other additional recovery programs continues, including steam displacement and in-situ combustion in California and Louisiana.

Automatic Well Testing

The final electronic control phase of the automatic well testing installation in the Kern River field began in October 1967 and completion is expected by the end of 1968. The largest installation of its kind in the industry, the AWT system initially will collect, compile and process data from some 2,100 producing wells and about 85 steam generators. The system includes capacity to handle additional wells and generators. AWT provides management with better operating knowledge and more efficient control of thermal recovery operations.

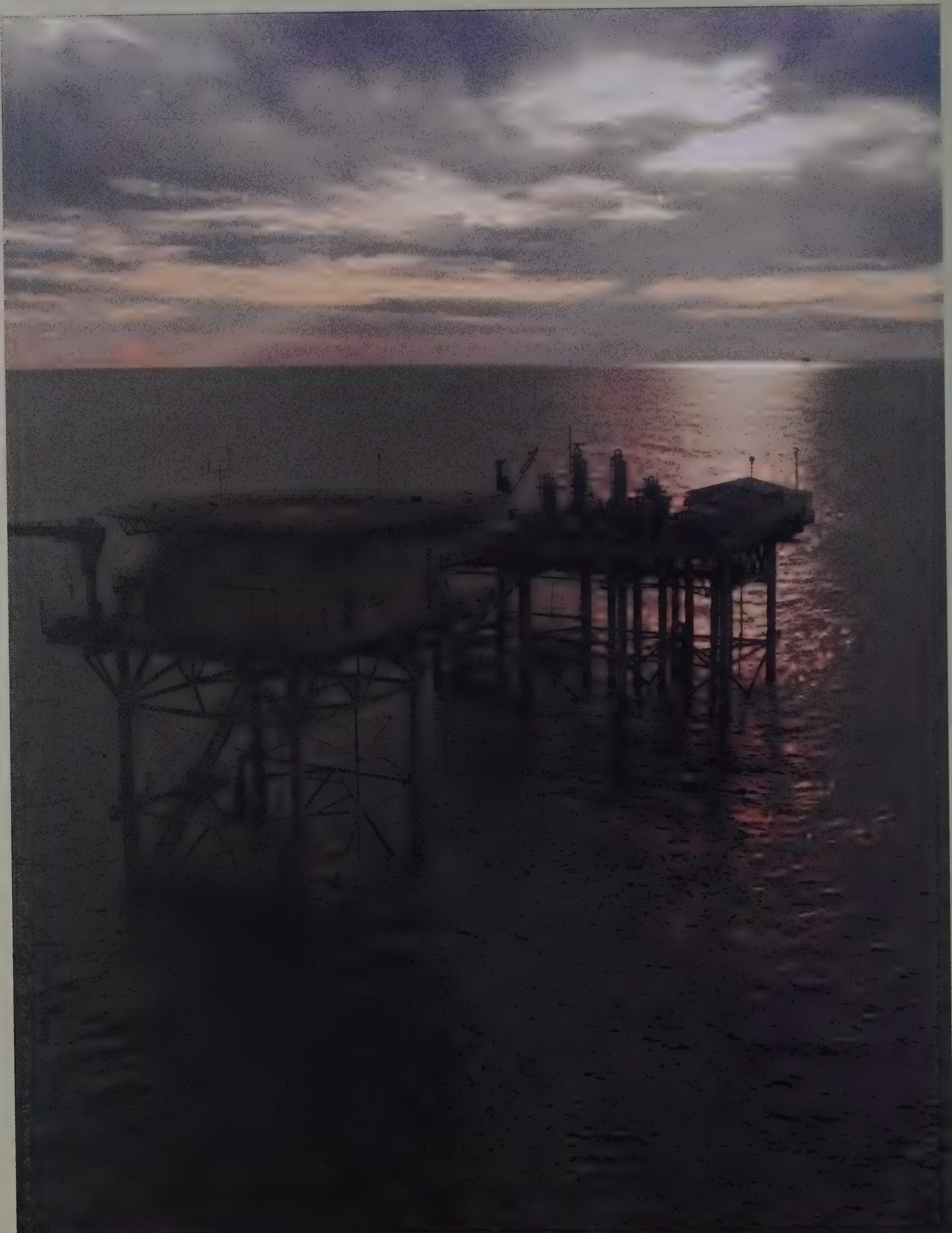
Natural Gas Processing Complex

Natural gas processing capacity increased during the year with the expansion of several of the 32 natural gas processing plants in which Getty Oil held an interest at year end.

In south central Louisiana, Getty Oil jointly with two other companies completed the first phase of a natural gas transportation and fractionation system. A 25,000 barrel per day fractionation plant at Breaux Bridge commenced operation in 1967 and 112 miles of main pipeline system were completed to carry a raw natural gas liquids mix to the plant.

Construction contracts have been awarded to double the capacity of the Breaux Bridge plant and to extend the main pipeline 75 miles to connect the Getty Oil-operated Venice and Bastian Bay gas processing plants to the overall system. At Bastian Bay construction is underway on a plant in which Getty Oil owns an 83 percent working interest. Completion is expected late in 1968. Expansion of the

A production employee checks a data panel which is part of the automatic well testing system in the Kern River field, California. Installation of electronic controls, the final phase of the AWT system, is due for completion in 1968.



Venice plant is planned in 1968. Capacity of the Hollywood gas processing plant at Houma in Terrebonne Parish was expanded from 90 million to 200 million cubic feet daily in 1967. This plant delivers ethane and heavier natural gas liquids through the pipeline for fractionation at Breaux Bridge.

During the latter part of the year, Getty Oil began selling gas from the Katy field, near Houston, Texas. The company has joined with other field owners in the construction of a new low-temperature, highly efficient gas processing plant which will have a capacity of 800 million cubic feet daily and will replace three existing plants.

Exploration

Getty Oil's search for new reserves in major petroleum producing regions during 1967 included participation in 24 gross successful wildcat wells. This resulted in a total of 11 net discoveries for Getty Oil out of 41 net exploratory wells drilled.

Significant exploratory drilling during 1967 was recorded in California, Texas, Louisiana, offshore in the Gulf of Mexico, and in Algeria.

The Teas field in Freestone County, East Texas, was discovered by Getty Oil's No. 1-A E. C. Bryant wildcat, which tested 20 million cubic feet of gas daily from the Smackover formation. An analysis of this gas indicated a content of approximately 12 tons of sulfur and about 27 barrels of condensate per million cubic feet of gas. Earlier the H. B. Steward No. 1 well was completed in two formations of the Rischers Store area for a total of 4.5 million cubic feet of gas and 129 barrels of oil per day. This success is part of a joint venture operation in which Getty Oil holds a 50 percent interest with Lone Star Producing Company. It confirmed a geological approach initiated by the company some four years previously. Additional confirmation wells have been completed in both areas.

Getty Oil and Lone Star Producing Company, in the second year of a joint exploratory agreement, hold leases totaling 64,000 gross acres along the Smackover Trend play in Freestone and Bowie counties and other areas in East Texas.

This production platform off Louisiana is a part of the CAGC operation in the Gulf of Mexico. Getty Oil holds a 25 percent interest in CAGC and a 25 percent interest in the CSSG group which operates in the Gulf off Texas.

In California Getty Oil discovered the Todhunters Lake gas field near Sacramento with the Reavis and Baker No. 1 well, which tested 4.8 million cubic feet of gas daily from the Starkey sand. A subsequent confirmation well also was completed. In Kern County the company completed a field extension well, the Getty Morris USL No. 581, which tested 4,128 barrels per day of 36 degree gravity oil from the Upper Carneros sand, and 187 barrels daily from the Lower Carneros. Additional drilling is underway on this 160 acre federal lease in the Cymric Flank area of the Cymric field near McKittrick, California.

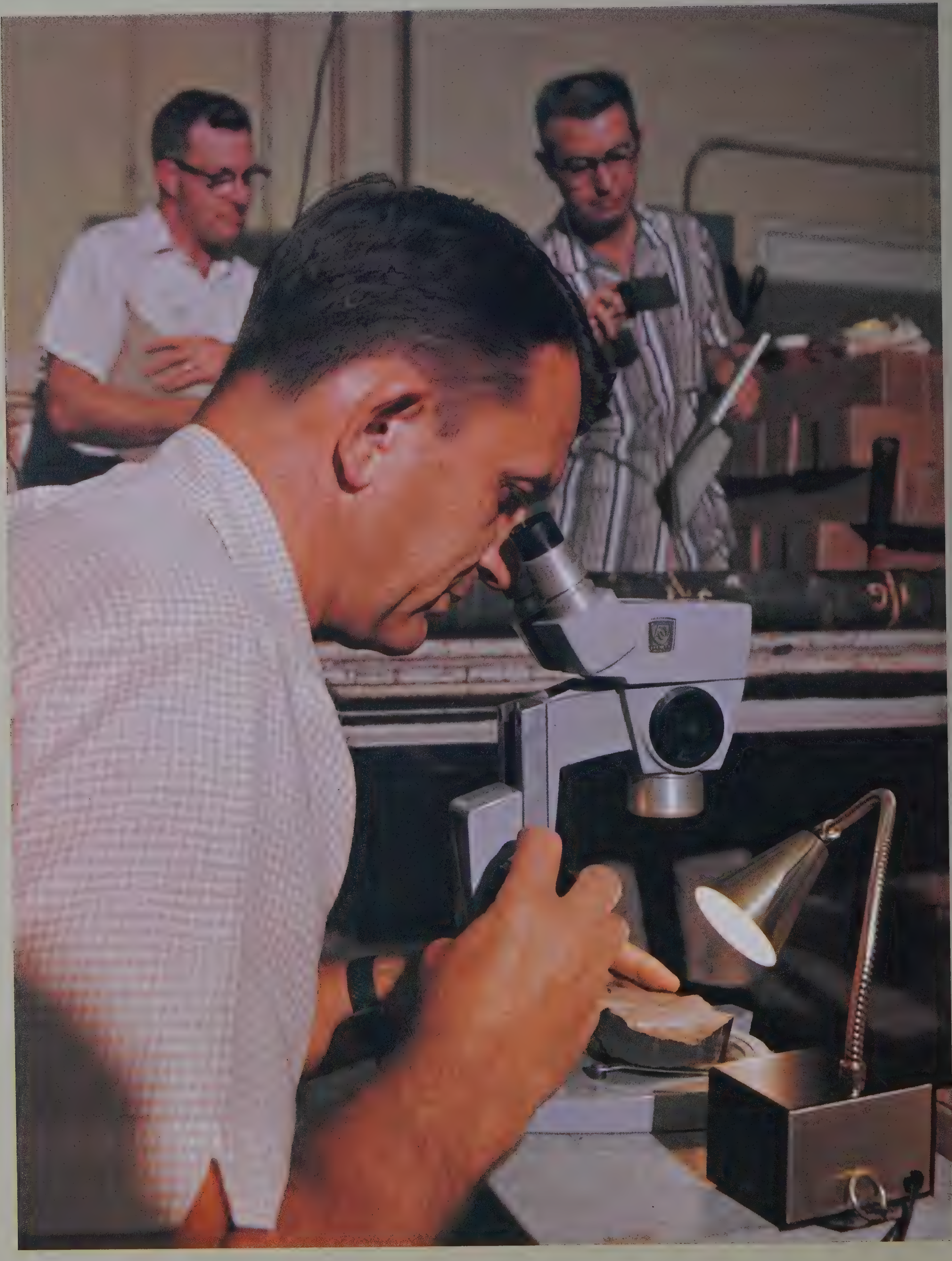
In Butte County, California, Getty Oil shared a 50 percent working interest in the No. 7 Wild Goose Country Club exploratory test, located on the west flank of the Wild Goose field. The test was completed as a field extension in two sands on a jointly held 2,300 acre block.

Extensive geophysical programs were conducted in California, the Mid-Continent area and southern coastal states during 1967.

In the Gulf of Mexico during 1967, the company participated in the completion of 13 successful exploratory wells out of a total of 28 tests conducted by two offshore groups. Completions included three new field strikes and 10 new fault block discoveries or extensions to existing fields. Six wells are oil producers, primarily, and seven are gas wells. Getty Oil holds a 25 percent interest in each of the two offshore groups involved in the completions.

The CAGC group (Continental, Atlantic Richfield, Getty Oil and Cities Service) drilled 27 of the tests, all off the Louisiana coast. One major discovery and four extension wells were drilled in the Grand Isle Block 43 area. The West Delta Block 96 No. 1 confirmed a major fault and logged two sands with 46 feet of net effective oil and gas pay. The West Delta Block 95 No. 1 and No. 2 wells penetrated better structural positions and found four additional sands with 235 feet of oil sands. The Grand Isle 43 No. 3 extended production on the northwest side of the field, and the West Delta 95 No. H-12 found 82 net effective feet of oil pay in three M series sands in a new fault block.

The Grand Isle Block 42 No. 3, located 6,800 feet east of a platform in the Grand Isle Block 41 field, logged 80 feet of net effective oil and 26 feet of net effective gas in three sands, and established a location for a third platform in the field.



A major discovery well and an extension were drilled in the Grand Isle Block 72 area, on the northwest flank of a salt dome. The Grand Isle Block 63 No. 1 found 144 feet of net effective oil and gas pay which is the largest productive section discovered in this area. This section was extended to the southwest by the Grand Isle Block 73 No. 3. The two successes were drilled on a farmout to Continental Oil Company and Getty Oil, with Getty Oil holding a 17 percent working interest in both wells.

The Ship Shoal Block 198 No. 3 discovered a new fault block and 56 net effective feet of gas in two sands. The West Cameron Block 192 No. 1 was drilled into an untested fault block and logged 106 feet of net effective gas pay in three sands.

In continued drilling in the East Cameron Block, the No. B-5 found the OC sand productive at 15,600 feet in a new fault block. The well also discovered the LR sand as a new productive zone at 12,000 feet, logging 95 feet of net effective gas pay. The No. B-6 confirmation well also found both sands productive.

The CSSG group (Cities Service, Sunray DX, Skelly and Getty Oil) drilled the remaining single discovery, which proved to be the group's first success off the Texas coast. The Mustang Island 773-L No. 1 was drilled by the CSSG group, offshore from Nueces County, Texas, and found seven productive zones between 7,700 and 14,050 feet, with 121 feet of net effective gas pay. Five of the seven Frio sands were found below 13,000 feet.

During 1967 an additional 14,790 prospective acres were acquired on 13 tracts off the Louisiana coast by the CAGC group at a net cost to Getty Oil of $10,416,828.

The company acquired approximately 258,000 net acres of prospective oil and gas land during 1967 and relinquished 389,000 net acres which had been evaluated as commercially nonproductive. At year end Getty Oil held approximately 1,861,000 net acres for prospective drilling.

Saudi Arabia-Kuwait Neutral Zone

The comments and the statistics in this section of the report with respect to field operations, including exploration, development, engineering, production and operations, all refer to total field operations, in which the company holds an undivided one-half interest in accordance with the Concession Agreement with the Government of the Kingdom of Saudi Arabia. A Joint Operations Committee continues to coordinate certain field operations with the American Independent Oil Company, the Kuwaiti concessionaire.

Exploration

A complete seismic review of existing Neutral Zone data was conducted during 1967. As a result of a marine seismic survey in the offshore area near Mishab, a significant seismic anomaly, referred to as the Mishab prospect, was confirmed.

In addition to the Mishab prospect, subsurface geological studies were applied to the seismic reinterpretation. This project has not as yet been completed, although two significant prospects are apparent at this time. These prospects are known as Jalib and Ahmadi Ridge.

Development

Development of the South Umm Gudair field continued during the year at a steady pace with the completion of a total of 15 wells drilled to a depth of approximately 9,150 feet. Initial producing capabilities range from 3,000 to 10,000 barrels of oil per day. A total of 17 wells is scheduled. The completion of the pipeline and gathering facilities is scheduled for early March 1968, after which the initial producing potential of the field is anticipated to be 75,000 barrels of oil per day.

Engineering, Production and Operations

A 16-inch pipeline from the South Umm Gudair gathering facilities to the Wafra gathering center was completed during the year. Construction of the South Umm Gudair gathering facilities were 75 percent finished and scheduled for completion in March 1968. The pipeline is designed for a 95,000 barrel per day capacity, sufficient to accommodate the initial 75,000 barrel per day rate from the South Umm Gudair field.

Work designed to increase the production capacity of the main Ratawi field was initiated during the year, with the goal of increasing the production rate

Geologists check promising core samples taken from wells drilled as a part of the company's continuing exploratory and development drilling programs.

from 65,000 barrels to approximately 80,000 barrels of oil per day.

At year end the total number of wells drilled in the Neutral Zone stood at 524. The total crude oil production for 1967 amounted to 50,300,000 barrels, compared with 60,400,000 barrels in 1966. The decrease was due largely to international disturbances in transportation and marketing during the last half of the year.

Refinery and Terminal Operations

Continuous operations were maintained in the company's wholly-owned refinery and terminal during the year. A turnaround was completed on schedule at the refinery.

Major construction projects completed or underway during the year included a vapor recovery unit, which recovers light ends, thus increasing the quantity and the gravity of the Ratawi crude oil; an amine reclaimer, to reduce losses of amine from the gas sweetening plant at Wafra; and several other plant additions at various installations to increase quality, efficiency and output.

Algeria

International oil and gas operations included the completion of the Messdar No. 2 wildcat well and three development wells in Algeria. The discovery was drilled by the operator, a subsidiary of Sinclair Oil Company, some 15 miles southwest of production in the Rhourde el Baguel field. Getty Oil holds an 11.5 percent interest in the Algerian concession.

During 1967 the Getty Oil share of oil production from the Rhourde el Baguel field rose to an average of 9,100 barrels daily, compared with 6,900 barrels daily in 1966.

Iran

Getty Oil's interest in Iranian Consortium oil production averaged 18,600 barrels daily in 1967, compared with 15,800 barrels daily during the preceding year.

Evaluation holes were drilled to define known uranium ore bodies and to determine additional potentials in the Shirley Basin, Wyoming, where Getty Oil, in a joint venture with Skelly Oil, owns extensive reserves.

Minerals

Rising domestic demand for uranium as a nuclear fuel for generating electricity added to the substantial value of Getty Oil's minerals exploration and mining operations.

Getty Oil is operator of the Petrotomics Company uranium mine and mill in the Wyoming Shirley Basin, mentioned in the consolidated review.

At the end of 1967, the Petrotomics mill capacity was being doubled to 1,000 tons per day. Uranium ore mining had begun from a new major pit, the Dave Mine. Six large trucks of 100-ton capacity each and a 25-ton capacity shovel, purchased during the year, are expected to greatly increase the efficiency of mining operations in Wyoming.

Getty Oil, in a joint venture with Skelly, also owns extensive reserves in the Shirley Basin that are not dedicated to Petrotomics. Geological, engineering and economic studies have been initiated to determine the extent and feasibility of mining these reserves at various market prices. Initial phases of the study are being conducted by consultants, working closely with Getty Oil's technical and management science groups. Plans call for extensive use of electronic data processing to help determine recoverable ore reserves and open pit design.

In 1967 the company established and staffed a minerals exploration office at Salt Lake City as the operator for the Getty Oil-Skelly Oil uranium exploration joint venture. Geological studies were conducted in several states and sizable acreage positions are held in Arizona, New Mexico, and areas of Wyoming. Exploratory drilling was carried out in Wyoming.

Exploration for other minerals was intensified by Getty Oil during the year. Geochemical, geophysical and exploratory drilling programs were carried out by Getty Oil in Arizona, Nevada and Minnesota in joint efforts with Homestake Mining Company, Phelps Dodge Corporation, Kern County Land Company, New York Honduras and Rosario Mining Company, and W. S. Moore Company.

In Mexico a second molybdenum mill was completed by Minera Galaviz S.A., an affiliate of Getty Oil. Ore for the new mill will be produced from a nearby orebody. An exploration program also is under way to assess the mineral potential of areas surrounding present Minera Galaviz holdings.

In South West Africa a partnership exploration

program for diamonds was continued jointly by Getty Oil and the Anglo-American Corporation.

Oil Shale Reserves

Getty Oil owns approximately 24,300 acres of oil shale reserves in western Colorado. Some 21,300 acres are underlain by the Mahogany oil shale zone, which is considered to be the richest zone of the oil shale formation. Company holdings are well located for possible future development. Canyons that cut the acreage could provide natural waste disposal areas and water rights held by the company are deemed to be adequate for the development of its oil shale reserves.

As yet, oil from shale has not been produced commercially and the processes required to extract oil from shale remain in the experimental stage. Presently it appears unlikely that commercial production of oil from shale will commence for some years.

Manufacturing

During 1967 Getty Oil installed a computerized management information system at its Delaware City, Delaware, refinery. Further developments, including the direct application of computer control to refinery units, are planned to promptly provide management with results and evaluations for more precise control of operations at the 140,000 barrels per day refinery. A process control computer was installed to initiate the development of these on-line systems.

At the Delaware City refinery, 4,297,000 man-hours were completed without a lost-time injury. The record, extending over a period of three and one-half years, earned refinery employees the National Safety Council's highest industrial safety award, the Award of Honor.

Safe and efficient operations also were recorded at other company refineries, including the 50,000 barrels per day plant at Mina Saud, Saudi Arabia-Kuwait Neutral Zone, and the Gaeta, Italy, refinery which has a throughput capacity of 40,000 barrels per stream day. The Gaeta refinery underwent a general overhaul during the summer after two years of continuous operation. A study is under way to determine the feasibility and cost of expanding the capacity of the Gaeta refinery.

In Japan construction began on a new lube oil manufacturing plant capable of producing 1,750 barrels per day of high grade lubricants at the 150,000 barrels per day capacity Mizushima refinery of Mitsubishi Oil Company, in which Getty Oil and Mission Corporation hold a 49.7 percent stock interest. Construction of an aromatics plant for the production of 112,000 tons per year of benzene, toluene and xylenes also began. Both new plants are expected to be completed and in service early in 1968.

During the year, Mitsubishi completed arrangements to purchase about 42 acres on Ogishima Island in Tokyo Bay. Additional storage and terminal facilities for the 74,400 barrels per day Kawasaki refinery will be constructed on the site. Existing tanks at the Kawasaki refinery will be dismantled to provide needed space for expanding processing facilities following completion of the tank farm on the island. In addition, plans call for construction of a mooring buoy in Tokyo Bay to permit unloading of 200,000 deadweight ton tankers delivering crude oil to the Kawasaki refinery.

Transportation

In 1967 Getty Oil leased and placed in operation a new 20-inch heated crude oil pipeline, which extends more than 170 miles from Coalinga, California, in central San Joaquin Valley, to refineries on San Francisco Bay. The pipeline, owned by an unrelated capital investment firm, replaces two older and smaller company-owned pipelines and offers greater efficiency and capacity to move Getty Oil's increased crude oil production from San Joaquin fields to processing areas. The most recent technological advancements have been utilized in this pipeline operation.

The latest maritime developments are employed in the operations of Getty Oil's international subsidiary fleet of 14 vessels, including a program to install bulbous bows on some vessels and jumboize other vessels.

Tonnage of Getty Oil's entire time-chartered international fleet totaled 1,019,000 deadweight tons at the end of 1967, including 787,000 deadweight tons in the company's international subsidiary fleet.

Mitsubishi Oil Company produces a broad range of refined products for Japanese markets at its Mizushima refinery, located on the Inland Sea about 450 miles southwest of Tokyo.


SKELLY

Marketing

During 1967 Getty Oil's sales of refined products averaged 158,000 barrels per day, compared with 236,000 barrels daily in 1966. The decrease in volume resulted primarily from the sale in July 1966 of the former Tidewater western marketing and manufacturing assets and related transportation facilities.

In the eastern United States, continued emphasis has been placed on the company's reconfiguration program, which is increasing the rate of return on investment in retail marketing outlets and selectively recovering capital.

Concentration of sales efforts in primary markets continued, and a program stressing beautification, construction and rehabilitation of service station facilities in profitable locations was launched. New advertising and promotional efforts were conducted to help increase retail gallonage.

A subsidiary, Getty Oil (Philippines), Inc., scheduled construction of 13 large service stations in 1967 as part of its continuing program designed to strengthen its position as a key marketer in this area of the world.

In Japan, Mitsubishi Oil Company domestic product sales increased 16 percent during 1967. Approximately 480 new service stations were constructed during the year, following a modification of government restrictions on new station construction.

Getty Oil also has international marketing subsidiaries in Europe, including Dansk Veedol in Denmark, Veedol G.m.b.H. in Germany, Huiles Veedol in France, Getty Oil Italiana and Lubrificanti Veedol in Italy.

In Canada, the subsidiary Veedol Oil Company (Canada), Ltd., completed construction of a new lube oil blending and packaging plant in the Ville de Laval industrial park near Montreal. This modern plant, with a production capacity of two million gallons per year, replaces formerly leased facilities.

Skelly Oil's operations as an integrated oil company are represented by these photographs of a Gulf of Mexico offshore drilling platform and a modern, well-located service station.

Review of Skelly Oil Company

Getty Oil Company's 49.5 percent equity interest in Skelly Oil Company is an indirect interest represented by its ownership of 2,388,224, or 69.72 percent, of the 3,425,435 outstanding shares of Mission Corporation. In turn, Mission Corporation owns 71.01 percent of Skelly Oil Company as the result of its ownership of 8,578,200 shares of the 12,079,470 outstanding shares of Skelly. Mission Corporation also has some small oil and gas holdings in the Mid-Continent area of the United States.

The 1967 income for Skelly Oil Company was a record $42,016,000, an increase of more than 13 percent over the comparable 1966 income of $36,963,000.

Capital expenditures of more than $137,000,000 were made. This program strengthened Skelly in its traditional role as an oil and gas company and provided planned diversification in selected areas.

Exploration and Production

Skelly's net crude oil production increased eight percent to 27.5 million barrels in 1967 compared with 25.5 million barrels in 1966. Daily average production was 75,400 barrels in 1967 compared with 70,000 barrels in 1966. Approximately two-thirds of the increase came from Alaska production. Excluding Alaska, 1967 production was still at an all-time high for the company. Net production of natural gas in 1967 was 142.8 billion cubic feet, an eight percent increase over the 132.7 billion cubic feet in 1966.

Skelly participated in the drilling of 111 net wells in 1967, compared with 146 in 1966. A total of 74 net producers were completed in 1967. Skelly added 65 new producing properties during the year.

During 1967 a fourth permanent drilling and producing platform was completed in Cook Inlet, Alaska, where Skelly has a 25 percent interest in 19 producing wells. A number of the wells produced in excess of 5,000 barrels per day on test. One in the Granite Point field produced 9,200 barrels per day. Skelly's share of crude oil production in Alaska grew from virtually nothing in 1966 to about 10,000 barrels per day at year end 1967. Alaska production for 1967 averaged 3,809 barrels per day.

Emphasis in Skelly's exploration program in Alaska is shifting from the north Cook Inlet area, where the exploratory drilling program is essentially completed, to other potential unexplored offshore areas. Marine seismic projects were undertaken in the Bristol Bay Basin, the Gulf of Alaska and south Cook Inlet.

In October 1965 Skelly acquired substantial undeveloped properties in the Arkoma Basin located in Arkansas and Oklahoma, along with interests in about 70 gas wells. Skelly has participated in drilling and completing an additional 100 gas wells, adding net reserves in excess of 200 billion cubic feet of gas.

Skelly is a member of several joint venture groups participating in geophysical efforts offshore of Texas and Louisiana. In 1967 Skelly, with other companies, acquired approximately 21,000 net acres in the Gulf coast offshore Louisiana at the federal outer continental shelf sale. Skelly's interest ranges from 25 percent to 50 percent in eleven tracts, each about 5,000 acres in size. Drilling has commenced on some of these leases.

Skelly has a one-third interest in a concession agreement completed in 1967, with exclusive rights to prospect for oil and gas both on land and in offshore areas in Mozambique, Africa.

Skelly joined with Mexican interests in 1967 for sulfur exploration on a concession in Veracruz, Mexico. Core hole drilling is now in progress.

Marketing and Manufacturing

Skelly's 1967 refined products sales volume increased to 1.1 billion gallons, or three percent over 1966, establishing a record. Sales of Skelgas (liquefied petroleum gas) totaled 440 million gallons, an increase of eight percent over 1966. Sales of Skelgro (anhydrous ammonia fertilizer) increased by 13 percent over 1966 as additional Skelgas outlets were equipped with facilities to handle fertilizer.

Skelly has established good locations on the interstate highway system in its marketing area in order to take advantage of the growth in automobile travel. Emphasis is on service station outlets combined with restaurant and motel facilities, through arrangements with the Nickerson Farms organization and the Rodeway Inns motel chain. Additional facilities featuring Skelly products are being constructed under these programs. Additions to truck stop locations continued in 1967. Truck and fuel stops now total 171.

Production records were established in 1967 for both Skelly's refinery and natural gas processing operations. The refinery at El Dorado, Kansas, processed a record 23.4 million barrels of crude oil during 1967, an average of 64,100 barrels per day, compared with 19.8 million barrels or an average of 54,200 barrels per day in 1966.

Revamping and modernization of the crude oil distillation facilities at the refinery during 1966 contributed to the 18 percent production increase achieved in 1967. Increased refinery output minimizes the need to purchase gasoline and fuel oil.

During 1967 Skelly's natural gas processing plants produced 427 million net gallons of natural gas liquids, an increase of 45 million gallons over 1966 and the highest production in the company's history. Expansion projects were completed at three plants and partial interests in three additional plants were acquired.

Chemicals

The petrochemical complex of Chemplex Company at Clinton, Iowa, is nearing completion and will go on stream in March 1968. A 50-50 joint venture of Skelly and American Can Company, Chemplex will produce ethylene and propylene. After plant expansion now in progress, the plant will produce 180 million pounds per year of low density polyethylene and 110 million pounds per year of high density polyethylene.

Formal dedication of the petrochemical fertilizer plant of Yong-Nam Chemical Company took place in March 1967 at the plant site in Ulsan, Korea. The fertilizer is sold for use in the Republic of Korea. This company is owned 25 percent each by Skelly and Swift & Company and 50 percent by an agency of the Korean Government.

Operations at the anhydrous ammonia fertilizer plant of Hawkeye Chemical Company (owned 50-50 by Skelly and Swift) were at capacity and the company's net income exceeded any prior year.

Chembond Company, a wholly-owned subsidiary which manufactures phenolic and urea resins for the forest products industry, reached new higher profit levels in 1967 and expanded its operations with a new resin plant at Spokane, Washington.

Transfer Agents

First National City Bank
Corporate Trust Department
399 Park Avenue
New York, New York 10022

Security First National Bank
Corporate Trust and Agency Division
124 West Fourth Street
Los Angeles, California 90054

Crocker-Citizens National Bank
Stock Transfer Department
Rincon Annex, Box 3725
San Francisco, California 94120

Registrars

Manufacturers Hanover Trust Company
Corporate Trust Department
40 Wall Street
New York, New York 10005

Bank of America, NT & SA
Corporate Trust Department
300 Montgomery Street
San Francisco, California 94120

Bank of America, NT & SA
Corporate Trust Division
111 West Seventh Street
Los Angeles, California 90014

The Annual Meeting

of stockholders will be held at 10 a.m. Thursday, May 2, 1968, at the offices of Corporation Trust Company, 100 West Tenth Street, Wilmington, Delaware.

Principal Offices

3810 Wilshire Boulevard, Los Angeles, California 90005
3450 Wilshire Boulevard, Los Angeles, California 90005
660 Madison Avenue, New York, New York 10021
815 Walker Avenue, Houston, Texas 77001
Mina Saud, Saudi Arabia-Kuwait Neutral Zone
Riyadh, Saudi Arabia

Direct inquiries to

Public Relations Department
Getty Oil Company
3810 Wilshire Boulevard
Los Angeles, California 90005

Getty Oil Company
3810 Wilshire Boulevard
Los Angeles, California 90005

Veedol—*the world's most famous motor oil.*

Winner in any competition.